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REPORT AND RECOMMENDATIONS OF THE 10TH
MEETING OF THE
ECONOMICS RESEARCH ADVISORY COMMITTEE

March 6-8, 1963
Washington, D. C.

Membership of the
Economics Research Advisory Committee

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PREFACE

The tenth meeting of the Economics Research Advisory Committee was held in Washington, D. C., on March 6-8, 1963, with all members of the Committee present except Dr. M. K. Horne, Jr., and Mr. Thomas H. Roberts. The Committee made a systematic review of the Department's economic research program. The primary basis for this review was the Progress Reports prepared for the Committee's use by each of the economic research divisions. This source of information was supplemented by oral reports from the following USDA research divisions of the Economic Research Service: Farm Production Economics, Resource Development Economics, Economic and Statistical Analysis, Marketing Economics, Development and Trade Analysis, Foreign Regional Analysis, and from Consumer and Food Economics Division of Agricultural Research Service, the Farmers Cooperative Service, and the Statistical Reporting Service.

In connection with the preparation of the report, the Committee wishes to point out that even though individual project statements in the working materials were not referred to as under the Farm Production Economics and Resource Development Economics Sections in this report, this does not indicate that the committee found them any more or less important than the research in other divisions.

After a careful review of all the material available to the Committee the Committee members prepared and submitted the recommendations which follow to the Secretary of Agriculture.

Additional copies of this report may be obtained from James F. Lankford, Executive Secretary, Economics Research Advisory Committee, Office of Administrator, Agricultural Research Service, U. S. Department of Agriculture, Washington 25, D. C.

REPORT AND RECOMMENDATIONS

GENERAL COMMENTS

In appraising the economics work of the Department, particularly the Economic Research Service, the Committee is conscious of the need for a division of labor in economics research for the benefit of American agriculture. The Land Grant agricultural colleges, agriculturally related businesses, farm organizations and others perform many research functions in the agricultural industry. We believe that an effort should be made toward greater collection and analysis of information on a national and regional scale which can be used by other agencies. Studies of value to national agricultural policies and to foreign policies affecting agriculture should be conducted. In short, ERS and the other economic research divisions in the Department should serve as a national intelligence center for agriculture.

The Economic Research Service has been redirecting its program toward fulfilling this function more adequately, and we are impressed with the quality of the work and the enthusiasm and morale of the professional civil servants carrying on these research activities. We believe further emphasis on aggregate studies of U. S. agricultural production, distribution, demand and markets is justified.

It is inevitable that ERS, if it performs its function as a national intelligence center for agriculture, will deal with politically controversial matters. It is strongly urged that the Service provide complete information, objectively analyzed, which can be used by policy makers inside and outside the government. It should be encouraged to engage in studies concerning national farm programs, which will provide fuller knowledge of the effects of these programs. We find an admirable climate of objectivity and academic freedom in ERS. This is a national asset which must be cultivated and preserved, free from harassment by special interests.

We see the need for studies which will guide an improvement in basic economic information to the department - in methodology of crop and market reporting, for example. In the press of supplying analyses for immediate use, ERS is handicapped by lack of fundamental knowledge that would improve the quality of information about supplies, demand, etc. We recommend that expanded support be given

to the research efforts underway to improve the validity of the important data generated by the Statistical Reporting Service, since such data and its accuracy is basic to much of the total research program. Enumerative surveys and other techniques to expand and upgrade data available in such basic areas as agriculture finance and income should also be encouraged.

FARM PRODUCTION ECONOMICS AND RESOURCE DEVELOPMENT ECONOMICS

General. We commend the Farm Production Economics and the Resource Development Economics Divisions for their thoughtful approach to current needs for soundly based information. In general the focus of the work seems to be on crucial problems.

We have noted a number of problems requiring new or additional research and we hope additional funds will be available for such work. But in view of the rapid changes taking place in the structure and operation of American agriculture, we urge these divisions to continue and intensify efforts to redirect manpower to high priority problems even in the absence of additional support.

Adjustments. Concerning the work in "Adjustments Most Profitable for Farmers" we think it is particularly important that information about inputs and outputs on farms be brought together so that it can be interpreted regionally and nationally.

Individual farm management studies of localized or specialized interest should be given low priority as compared with studies of regional or national significance.

Rural Development. Concerning area economic development, it is suggested that attention be given to: (1) Construction of balance sheets on an economic area showing the capital base and capital use, income flow and distribution, expense flow, and the effects of income flows by various new enterprises. (2) The study of effects on rural economic development of new and improved highways.

Efficiency in Agriculture. Basic work should be done to examine the incidence of our large investments in development and dissemination of new farm technology. There is great lack of understanding of the costs and benefits of public investments in new technology, the causal relationships to surplus production as well as downward pressures on farm prices and incomes. A hard look needs to be taken at the philosophy of "least cost at the farm gate."

Appraisal of Production Response and Need for Adjustment. An expansion in research is needed to appraise for producers and for farm program guidance the aggregate impacts of profit-maximizing adjustments by individual producers, and the probable total response of groups of producers to alternative price and related program policies.

Appraisal of Agricultural Policies and Programs. Continuing surplus production and associated needs for more satisfactory programs to help solve farm income and surplus problems, require comprehensive information on the impacts of current and alternative farm programs. Research on the impacts of farm programs should be expanded to appraise features of present and alternative programs, including acreage control, negotiability and transferability of allotments, marketing quotas, the soil bank, compulsory land retirement, levels and methods of price support, production payments and payments in kind.

Economics of Farm Size and Structure of Agriculture. Farm policy decisions which influence the rapid and continuing change in the structure of American agriculture require an expanded research based on (a) the relative efficiency of family farms; (b) the size of farm and investments needed in selected farming areas to provide economical operation and adequate family farm incomes; (c) the impact of adjustments toward efficient and profitable sizes of farms on job opportunities in agriculture in selected rural areas; and (d) the probable total number of farms of different sizes.

Impact of Alternative Forms of Vertical Coordination on Supply Response and Equitable Returns. Expanded research is needed to determine (a) the mutual interactions of alternative forms of vertical coordination and production control programs; (b) the circumstances under which they might be utilized to reinforce production control objectives; and (c) desirable contract provisions to minimize risk and assure equitable division of returns within the context of production control programs.

Enumerative Surveys on a National Scale of the Financial Condition of Farm Operators. These continue to be a most important need. Because great numbers of farmers have assets and income other than their farm assets and incomes, data of these types are required to obtain a true picture of the economic situation of farmers and of changes in their economic situations over time.

Farm Taxes and Local Government in the Rural-Urban Fringe. Problems of financing expanded public services and capital improvements in rural areas around growing cities are a major cause of the continued rapid rise in farm taxes. Many States have enacted or are considering legislation to hold down taxes on commercial farms in these areas through preferential assessment, tax deferrals, or by relating the level of taxes to zoning and other land-use controls. Research should be expanded on the consequences of such measures.

Valuation and Financing Problems Associated with the Inter-Generation Transfer of Farms. The next decade will require a sizeable turnover of present farm operators as a result of the aging of those now on farms, and also the withdrawal of those who lack the managerial capacity to adjust to the new technologies that can be expected. Close and continuing study is needed of the valuation of farm assets in relation to anticipated earnings and debt-carrying capacity of commercial farms. Alternative methods of financing the inter-generation transfer of farms should be explored, particularly the appropriate roles of the private and public sectors in providing such credit.

Land Resource Requirements and Development Potentials. Expanded research is needed to provide comprehensive guidelines for public policies in achieving a distribution among uses and a level of conservation and development which will best satisfy future competing demands for land and related water resources.

Recreational Use of Land and Other Agricultural Resources. Research should be undertaken to provide information on the extent, location, and requirements of feasible rural recreational development and thereby avoid costly failures resulting from the indiscriminate undertaking of recreational enterprises on farms and other rural lands.

Water Supplies and Requirements for Agricultural and Related Uses. Expanded research should be conducted to provide a regional basis for appraising the economic capabilities and limitations of water and related land resources available to meet agricultural production requirements; for determining the costs of alternative means of developing water and related land resources; for evaluating the economic potential of improved water management practices; and for analyzing values of water in agricultural and nonagricultural uses.

Arrangements for Guiding Land and Water Resource Use. There is both need and opportunity for improving the effectiveness and adequacy of resource organizations, administrative measures and arrangements, and legal devices for guiding the use and management of land and water resources. Research should be expanded to adequately appraise alternative organizational and other institutional arrangements necessary for achieving balanced land and water development and use.

Changes in the Ownership and Control of Resources in Agriculture. Requirements for increased capital and specialized skills in farming, the problem of transferring control of established farming operations, and the need for implementing programs for major land use changes, have stimulated interest in improved devices for acquiring and controlling agricultural resources. Research should be expanded to analyze the effect of conventional and improved tenure arrangements on farming efficiency and distribution of control and income among resource owners and users, and to develop more effective and legally feasible tenure arrangements for facilitating desirable agricultural adjustments.

Evaluation of Potentials of Areas for Economic Development. In the development of public programs of assistance to depressed rural areas there is a dire lack of information and guides for use in determining viable areas. Local areas are spending resources and efforts in what too often will be failures. Additional information and guides are a necessity for use in establishing potentials and priorities for local private efforts, and for giving direction to the Department's Rural Areas Development Program and to the Area Redevelopment Administration's activities in rural and small city areas.

Income Improvement Processes in Low-Income Farm Areas. There are indications that what can be done locally in economic development will be greatly affected by regional and national economic growth rates. Local industrialization as well as improvements in farm incomes may depend largely on regional and national economic growth. There is need for additional research to learn these relationships, and the implications of regional and economic growth for potentials of growth at local and area levels.

Institutional and Other Obstacles to Economic Development. Fragmentary findings from various studies indicate a large number of institutional factors that deter or prevent desirable economic adjustments in local and regional situations. These include certain

tax policies on agricultural lands and industries, low levels of support for education, lack of adequate utilities, inadequate zoning, or none at all, and many others.

Rates and Efficiency of Feeding Livestock. Data and analyses are lacking on the extent and economic feasibility of grain feeding, particularly for the more common grades of cattle. Additional research is needed to fill this gap, especially because of the importance of such data and analyses to effective planning for management and use of our feed and livestock resources under defense emergency conditions.

The Measurement of Pasture Production. Present approximations indicate that pasture provides about 35 percent of all feed nutrients consumed by livestock in the United States. An adequate statistical basis for estimating the contribution of this major agricultural resource and for analyzing its economic importance is sorely lacking. Research should be expanded to develop methods of directly measuring production from pasture.

Nonfarm Income of Farm Families. Adequate statistics on nonfarm income of farm families are essential to economic analysis of farmers' production response to changing technology, prices and economic conditions. Although pilot studies of nonfarm income of farm-operator families are planned from present resources, this general area of work needs to be greatly expanded.

Farmers' Production Response. Variations among farms of different types and sizes in farmers' production response to changing technology, prices, and economic conditions need to be analyzed. Information available on 40 representative commercial family-operated farms provides data that are of great potential use for this purpose. Although a modest start, in terms of one pilot plant study, is planned on such research with presently available funds, much greater emphasis should be given to the use of the costs and returns series for this purpose.

Projections of Labor Supply and Labor Needed in Agriculture and of Related Human Adjustments. Comprehensive projections of farm labor input, farm employment, and number of farm people to dates such as 1970 and 1975 are required to indicate the nature and extent of these economic and human adjustments yet to come. These projections would utilize projections of the demand for farm products and of the

acres and yields of crops and numbers and production of livestock necessary to meet this demand. Projections would be made of the impact of future progress in farm technology, and of impending changes in the structure of agriculture, on the utilization of human effort in farming.

Transfer of Human Resources Out of Agriculture. Studies should be initiated to determine what economic and social considerations influence the rate of the net movement of labor resources from farming into other pursuits. Such a study would improve our understanding of the continuing problem of excessive labor in farming.

Stability of Employment of Regular Hired Workers. Research is needed on year-round hired farmworkers, with particular reference to pay and terms of employment as incentives for attracting and holding adequately qualified workers. Such a study would require estimates of probable costs of meeting given employment standards in representative type-of-farming situations.

ECONOMIC AND STATISTICAL ANALYSIS

The Committee wishes to emphasize the importance of both (1) comprehensive, accurate data on incomes, prices, production, utilization, and other economic variables relating to agriculture and (2) a thorough understanding of how the variables affect each other, how they are influenced by forces outside of agriculture, and how they in turn react on the nonfarm economy. Such information is indispensable to appraising the current economic position of agriculture, to estimating the probable outcomes of forces currently at work, and to analyzing the consequences of alternative agricultural policies. The Committee recommends that continuing efforts be made to improve the scope and quality of statistical series showing the economic position of agriculture and that research on the economic behavior of agriculture should be strengthened.

Improvement and Extension of Statistical Series. Data on farm income and expenditures, both nationally and by States, need to be improved by (1) better information about income from nonfarm sources, (2) data for size classes of farms, (3) estimates of personal income and tax payments of farmers, and (4) more up-to-date and detailed information on the relative importance of items included in total income and expenditures. Research to provide benchmark data for these statistical series is needed, as are resources for the collection and compilation of data.

It is also recommended that the Division should periodically prepare a summary statement showing how individual farm products, and farm products collectively, are distributed among (a) the private commercial market and (b) various types of outlets to support farm prices or to provide assistance to nonfarm groups at home and abroad.

Research on the Economic and Sociological Characteristics of Agriculture. Studies of the following kinds should be emphasized:

(1) Interrelationships among production, prices, and utilization of products in the feed-livestock sector of the agricultural economy. Information is especially needed on the utilization of concentrate feeds by classes of livestock and on the effect of feed and product prices on utilization.

(2) Input-output data showing how major sectors of agriculture are dependent on each other and how these sectors tie into the nonfarm economy as a whole.

(3) Aggregative models of supply of agricultural products. The major unanswered questions about the economic behavior of agriculture have been in this area. Experimentation with models incorporating even tentative information about effects of prices, technology, time lags, etc., should be undertaken with a view toward providing an analytical framework for supply as improved information about various aspects of its behavior becomes available.

(4) Periodic projections of the intermediate and long-run position of agriculture - production, utilization, prices, incomes, and the like. This is one of the most useful ways of bringing together information on the broad effects of economic forces bearing on agriculture, and it is also an effective way of getting public understanding of their combined effects. Projections showing outcomes under alternative farm programs are a particularly important form of this work.

(5) Studies of the educational level of rural people and of the quality of rural education. It should be recognized that education is not only a matter of years of schooling but also of kind and quality of training. Research on the qualitative aspects is becoming increasingly important.

(6) Sociological aspects of changes in rural communities under the impact of farm technology, improved transportation, and intrusion of urban influences. Much of this would be appropriately done in cooperation with ERS units studying rural development.

(7) Recording the history of current and recent developments in agriculture. These are crucial years because of technological advance, rising participation by the United States in foreign agricultural development, changes in international trade relations, evolving farm policies, and the transformation of rural life.

MARKETING ECONOMICS

Market Structure, Practices and Competition. The Committee believes that research in this area deals with some of the most important problems in Marketing Economics and should receive additional attention. We also recommend that special emphasis should be focused on farmers bargaining power. Farmers are dealing with fewer and larger firms in both their selling and purchasing activities. These larger firms have a profound influence on the nature of competition existing in the markets for farm products and farm supplies. A full examination and explanation of these changes should be made and their relation to farmer bargaining power studied. This includes procurement practices and pricing policies of marketing firms and sales practices and pricing policies of supply firms.

However, to make this goal effective through a research program will require major and broad conceptual planning work to make sure that the many individual research pieces which must be done over time will continue to increase our ability to answer the two important questions: What is the condition of the farmers bargaining power; and what might be done to improve it? There is need for long-run and definitive planning. As the efforts in the general problem area are expanded, we urge more attention be given to evolving a long-run plan to guide the selection of individual research efforts. In doing this the added decentralization of some of this work into cooperative arrangements with the States should be considered. Cooperation of business in doing some necessary phases of this work may be more easily obtained from the working base of a State than from Washington. Specifically we agree that the two special areas brought to our attention: integration and the market of purchased inputs by farmers are very important and should receive added emphasis.

With the growing importance of the activities of these firms serving and selling to farmers, this marketing area cannot be safely ignored.

The work of this group and of the Farmers Cooperative Service have a common ground in the attention to ways of increasing farmer's bargaining power. Close coordination in research planning activities is much desired.

Distribution Programs. This general area of work is of the same type as that in other sections of evaluating the potential results of alternative farm policy proposals and needs to be continually emphasized so the results of various programs on consumption and demand can be accurately evaluated. Emphasis should be placed on the extent that various distribution programs add to normal market demand as against merely substituting for it.

Market Potential for New Products and New Uses. As resources are added for new product and utilization research, economic evaluation of the market potential for such products and uses must keep pace with the technical activities. Care should be taken in this area, however, to elicit the maximum participation of private business which has the greatest interest in such activities.

Merchandising and Promotion. Efforts which attempt to measure the effectiveness of various promotional devices and approaches should be continued. This work has great importance to many groups that have responsibility for guiding expenditures of large sums of promotional moneys.

In addition, the work which attempts to develop aggregate measures for the changing size of this growing item of marketing cost should be emphasized.

Resource; should also be devoted to fundamental type work on the role of promotional activities in our economy and their relationship to the general structure and performance of the marketing system.

Care should be taken however, to limit studies made in this area to those which will contribute to establishing general guide lines to answering general questions which will guide policy in these areas.

FOREIGN DEVELOPMENT AND TRADE ANALYSIS
AND FOREIGN REGIONAL ANALYSIS

Analysis of Alternative Farm Export Programs. The supplementary, complementary or competitive relationships of Titles II, III, and IV to Title I sales for local currency under P.L. 480 should be evaluated. Moreover, the relationship of the P.L. 480 program should be evaluated relative to bilateral programs advanced by other surplus food countries and to multilateral approaches developed under the World Food Program.

Effect of the P.L. 480 Programs in Recipient Countries. The results of research in foreign countries to determine the effects of P.L. 480 programs is basic to the analysis of (a) future proposals for expanding agricultural exports, (b) the determination of the capacity of recipient countries to absorb agricultural commodity assistance effectively and the manner in which it can be most effective, and (c) the role of U. S. export programs under P.L. 480 to insure the maximization of the effectiveness of the Nation's agricultural production potential in overseas programs.

Monetary Impacts of Trade and Development Programs. More research should be directed to the longer term effects of U. S. agricultural exports under alternative U. S. programs upon the recipient countries' and suppliers' balance of payments, government budget and monetary system. Special attention should be given to determine the types of programs that best advance economic development in emerging nations.

U. S. and Foreign Farm Programs. The development of the Common Market and discussion of new trade relationships in the Atlantic Community have created a need for studies of the national farm policies of the community. Studies are needed on the implications of various farm policies on United States' exports, long-range and short-range. Possibilities of joint community agricultural planning need study.

Evaluation of International Commodity Agreements. Analyses should be initiated to determine the kind of international commodity agreements and trading arrangements that will best protect the income position of the U. S. farmer and promote the objectives of the Trade Expansion Act of 1962. Particular emphasis should be placed upon the complementarity of the farm production and trade patterns of temperate and tropical zone countries.

World Agricultural Reporting. The reporting of information about agricultural developments in various regions of the world is one of the most valuable services of this agency. We believe the Regional Analysis Division which does this work should be renamed the World Agricultural Analysis Division. This work should be expanded. We feel that the reporting of information on agriculture of the Communist countries especially needs to be improved and more professional manpower in this field would be justified.

World Agricultural Price Series. An important working tool for foreign trade analysis and for foreign policy planning is foreign commodity price information. The Committee recommends that price series for individual commodities and analytical reviews of trends in world agricultural prices be developed.

Long-Range Outlook for Farm Exports. The new estimates of a world food budget are a contribution to understanding of world food needs and a guide to intelligent policy planning. We strongly commend this work and urge its refinement and strengthening.

Studies should be undertaken to identify and lessen the institutional restraints to the movement of U. S. farm commodities into the channels of foreign trade. Particular attention should be given to research leading to improved foreign market development which show little prospect of immediate return to private industry.

Studies are needed of food habits and social and religious taboos affecting food consumption in other countries. Projections of food supplies, needs, and effective demand are indispensable to analysis of farm export prospects.

STATISTICAL REPORTING

Consumer Preference and Quality Discrimination. This type of work seems closely related to the work in Marketing Economics in exploring market potential for new products and utilization patterns. Preference and attitude work with consumers and marketing agencies would be an important and necessary part of economic work which may arise from the increased research on new products and these two approaches should be carefully coordinated.

RESEARCH WITH FARMER COOPERATIVES

The program of Farmer Cooperative Service should be expanded so as to make its work with cooperatives more effective in increasing farm income and farmer's bargaining power. To this end it is recommended that:

(1) Basic studies of the degree of penetration of cooperatives both vertically and horizontally in American agriculture and their influence on farm income are needed. A broad overall picture of cooperative activity in the aggregate is needed.

(2) Studies be initiated of possible changes in the traditional concepts of cooperative structure and operation to enable them to perform more effectively as a countervailing power for farmers. This includes investigations of their role in private supply management and producing for a market.

(3) There be increased work in functional area research including financing, mergers, personnel policies including compensation and management.

(4) Work for individual organizations should be de-emphasized. State agencies can assist on local problems.

CONSUMER AND FOOD ECONOMICS

Household Economics Research. The data on consumption patterns, dietary levels, levels of living, and other research related to economic problems of families are important in various agricultural policy and program evaluations, and should continue to be encouraged. The efforts to include additional possible variables which may help explain consumption and level of living differences are very desirable and should continue to be stressed.

The projected new survey on food consumption patterns is very important and subsequent tabulation of these data should be pushed forward to assure release of the results as soon as possible.

